

KAMAS CITY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

JUNE 30, 2006

KAMAS CITY
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Governmental Funds Statements	
Balance Sheet	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds Statements	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets	15
Statement of Cash Flows	16 - 17
Notes to Financial Statements	18 - 35
Required Supplemental Information	
Schedule of Revenues, Expenditures, and Changes to Fund Balances Budget and Actual - General Fund	36 - 39
Other Supplemental Information	
Schedule of Impact Fees	40
Auditor's Reports	
Independent Auditor's Report on State Legal Compliance	41 - 42
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43 - 44
Independent Auditor's Management Letter	45 - 46
Status of Fiscal Year 2005 Findings and Recommendations	47

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Kamas City
Kamas, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Kamas City, Utah as of and for the year ended June 30, 2006, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 7 and budgetary comparison information on pages 36 through 39 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kamas City's basic financial statements. The schedule of impact fees described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Davis, Chase & Associates

October 27, 2006

KAMAS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2006

INTRODUCTION

The following is a discussion and analysis of Kamas City's financial performance and activities for the fiscal year ending June 30, 2006.

HIGHLIGHTS

The City continued to upgrade city roads by the use of Class B & C Road money from the State, General Fund money, and participation from the school district on a road project greatly impacted by school traffic.

The City transferred from the General Fund another \$30,000 into the Capital Projects Fund toward the purchase or construction of a new Public Works building.

The City is involved in an ongoing and aggressive grant and loan application strategy to improve the aging water system, to extend water lines into the annexation areas, and to promote additional water sources. A significant CDBG grant and a Water Resources loan have been acquired that will be used during the coming 2006-2007 budget year for some of these projects.

The assets of Kamas City exceeded its liabilities at the end of the current fiscal year by \$6,483,473 (net assets). Of this amount, \$1,108,183 (unrestricted net assets) is available to meet ongoing obligations to citizens and creditors.

Net assets increased by \$1,562,578. Of this amount, 41.9 percent is a result of business-type activities.

The City's Governmental funds reported combined ending fund balance of \$371,936, an increase of \$194,302 compared to the prior years' ending amount. Of the combined total fund balance, \$208,305 is available for spending at the discretion of the City (unreserved and undesignated fund balance).

The unreserved and undesignated fund balance of the General Fund at June 30, 2006, totaling \$208,305, is 20 percent of the General Fund total revenues for the year and 100 percent of governmental unreserved and undesignated fund balance. The General Fund, also has approximately \$43,631 of fund balance reserved for specific purposes that will be carried over into the following fiscal year.

During the year, total bonded debt for Kamas City decreased by approximately \$94,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's Basic Financial Statements. The Basic Financial Statements includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements are comprised of the Statement of Net Assets, and the Statement of Activities. These two statements provide a broad overview of the City's finances. The Statement of Net Assets shows the overall net assets of the City. Increases and decreases in net assets are one indicator of the City's overall financial condition. The Statement of Activities helps to identify functions of the City that are principally supported by taxes and other general revenues (governmental activities) along with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Kamas's business type activities are sewer and water.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds are divided into two types. The two types are Governmental Funds and Proprietary Funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein; which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Kamas City has two Governmental Funds. The General Fund is the chief operating fund of the City. All of the City's activities are reported in the General Fund unless there is a compelling reason to report an activity in some other fund type. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Kamas City has two Proprietary Funds. The Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. The Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Kamas City has one Enterprise Fund to monitor the sewer system and one to monitor the water system.

There are several differences between Government-Wide and Fund Statements. Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements, but are expenditures on the governmental fund statements.

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Current and other assets	\$ 575,972	\$ 362,355	\$1,333,900	\$1,161,193	\$1,909,872	\$1,523,548
Capital assets	1,268,847	591,908	4,827,762	4,430,080	6,096,609	5,021,988
Total assets	1,844,819	954,263	6,161,662	5,591,273	8,006,481	6,545,536
Long-term liabilities						
outstanding	153,895	184,154	1,262,128	1,346,766	1,416,023	1,530,920
Other liabilities	86,985	184,721	20,000	20,000	106,985	204,721
Total liabilities	240,880	368,875	1,282,128	1,366,766	1,523,008	1,735,641
Net assets:						
Invested in capital assets, net of related debt	1,136,327	438,294	3,565,634	3,083,314	4,701,961	3,521,608
Restricted	163,631	147,631	509,698	419,615	673,329	567,246
Unrestricted	303,981	(537)	804,202	721,578	1,108,183	721,041
Total net assets	\$1,603,939	\$ 585,388	\$4,879,534	\$4,224,507	\$6,483,473	\$4,809,895

The largest component of the City's net assets, 70.8 percent, reflects investments in capital assets (land, buildings, equipment, and sewer infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 10.2 percent of total net assets and are subject to external restrictions on how they may be used. The remaining 19.0 percent of net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens and creditors.

Management's Discussion and Analysis

Governmental Activities and Business Type Activities

Changes in Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Revenues:						
Program revenues:						
Charges for services	\$ 421,788	\$ 113,287	\$ 544,071	\$ 436,568	\$ 965,859	\$ 549,855
Operating grants and contributions	74,354	99,849	-	-	74,354	99,849
Capital grants and contributions	678,870	2,064	489,003	23,875	1,167,873	25,939
General revenues:						
Property taxes	142,826	116,107	-	-	142,826	116,107
Other taxes	369,811	325,947	-	-	369,811	325,947
Other	55,199	61,462	-	-	55,199	61,462
Total revenues	<u>1,742,848</u>	<u>718,716</u>	<u>1,033,074</u>	<u>460,443</u>	<u>2,775,922</u>	<u>1,179,159</u>
Expenses:						
General government	269,341	284,271	-	-	269,341	284,271
Public safety	184,132	158,373	-	-	184,132	158,373
Highways and public improvements	225,472	147,106	-	-	225,472	147,106
Parks and recreation	127,913	62,536	-	-	127,913	62,536
Public works	23,079	17,954	-	-	23,079	17,954
Interest on long-term debt	5,360	5,434	-	-	5,360	5,434
Water	-	-	207,307	212,373	207,307	212,373
Sewer	-	-	170,740	162,346	170,740	162,346
Total expenses	<u>835,297</u>	<u>675,674</u>	<u>378,047</u>	<u>374,719</u>	<u>1,213,344</u>	<u>1,050,393</u>
Increase in net assets before transfers	907,551	43,042	655,027	85,724	1,562,578	128,766
Transfers	-	(20,000)	-	20,000	-	-
Increase in net assets	907,551	23,042	655,027	105,724	1,562,578	128,766
Net assets-beginning	696,388	562,346	4,224,507	4,118,783	4,920,895	4,681,129
Net assets-ending	<u>\$1,603,939</u>	<u>\$ 585,388</u>	<u>\$4,879,534</u>	<u>\$4,224,507</u>	<u>\$6,483,473</u>	<u>\$4,809,895</u>

Governmental Activities

The activities in the governmental funds resulted in an increase in net assets of \$907,551 for the year.

Business-Type Activities

The business-type activities increased net assets by \$655,027. The sewer and water enterprise funds are generating sufficient revenue to cover operating costs.

Management's Discussion and Analysis

Capital Assets

Kamas City added \$734,217 in new capital assets in governmental activities during the fiscal year. The following assets were acquired or constructed: new truck - \$11,395; partial interest in a backhoe upgrade - \$2,000; and \$41,952 in pavilion improvements and playground equipment. New infrastructure added through development included: roads - \$261,533; sidewalks, curbs and gutters - \$269,202; storm drains - \$140,110; and other - \$8,025.

Fund Balances

The fund balance in the General Fund was increased by \$164,302. \$30,000 was transferred to the Capital Projects Fund for a new public works building. The Net Assets in the Enterprise Funds increased by \$655,027.

During the fiscal year, the fund balance in the Capital Projects Fund increased \$30,000.

Long-Term Debt

The City currently owes \$1,375,000 for Revenue Bonds and \$19,648 for lease purchase agreements. The City owes \$21,375 in compensated absences. The proceeds from the bonds were used to finance the City's water and sewer infrastructure and to build the City Hall. \$107,764 of the debt will be paid in the current year with \$1,308,259 remaining in Long-Term debt.

General Fund Budgets

Kamas City prepares its budget according to state statutes. The General Fund budget was amended during the year to meet the needs of growth in the City.

Actual General Fund revenues were \$169,428 above the original budget and \$3,866 below the final adjusted budget. Actual General Fund expenses before transfers were \$91,076 above the original budget and \$13,225 below the final adjusted budget.

ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Kamas City's finances and to demonstrate the City's accountability for the money it receives.

Questions concerning any of the information provided in this report or any other matters related to the City's finances should be addressed to Kamas City Recorder, 170 North Main, Kamas City, Utah 84036.

KAMAS CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 173,024	\$ 778,385	\$ 951,409
Restricted cash	163,631	509,698	673,329
Accounts receivable	7,327	45,817	53,144
Due from other governmental units	224,710	-	224,710
Prepaid expenses	7,280	-	7,280
Capital assets (net of accumulated depreciation):			
Land	105,519	70,196	175,715
Infrastructure	670,734	331,653	1,002,387
Buildings	210,248	-	210,248
Improvements	114,993	3,874,673	3,989,666
Machinery and equipment	167,353	110,896	278,249
Water stock		440,344	440,344
TOTAL ASSETS	1,844,819	6,161,662	8,006,481
LIABILITIES			
Accounts payable	51,985	-	51,985
Deposits	5,000	20,000	25,000
Deferred revenue	30,000	-	30,000
Non-current liabilities:			
Due within one year	21,636	86,128	107,764
Due in more than one year	132,259	1,176,000	1,308,259
TOTAL LIABILITIES	240,880	1,282,128	1,523,008
NET ASSETS			
Invested in capital assets, net of related debt	1,136,327	3,565,634	4,701,961
Restricted for:			
Capital projects	120,000	-	120,000
Parks	5,011	-	5,011
Road impact	21,500	-	21,500
Debt service	17,120	-	17,120
Water purchases	-	25,643	25,643
Bond reserves	-	143,833	143,833
Impact fees	-	340,222	340,222
Unrestricted	303,981	804,202	1,108,183
TOTAL NET ASSETS	\$ 1,603,939	\$ 4,879,534	\$ 6,483,473

The accompanying notes are an integral part of these statements.

KAMAS CITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

		Net (Expense) Revenue and Changes in Net Assets				
		Program Revenues			Primary Government	
FUNCTIONS/PROGRAMS	PRIMARY GOVERNMENT:	Operating		Capital		
		Charges for	Grants and	Grants and	Governmental	Business-type
		Expenses	Services	Contributions	Activities	Activities
				Contributions		Total
Governmental activities:	General government	\$ 269,341	\$ 274,523	\$ -	\$ 5,182	\$ 5,182
	Public safety	184,132	2,432	2,949	(178,751)	(178,751)
	Highways and public improvements	225,472	37,225	678,870	548,928	548,928
	Parks and recreation	127,913	107,608	-	(7,205)	(7,205)
	Public works	23,079	-	-	(23,079)	(23,079)
	Interest on long-term debt	5,360	-	-	(5,360)	(5,360)
	Total governmental activities	835,297	421,788	74,354	339,715	339,715
Business-type activities:	Water	207,307	330,481	-	-	424,242
	Sewer	170,740	213,590	-	-	230,785
	Total business-type activities	378,047	544,071	-	-	655,027
	Total primary government	\$ 1,213,344	\$ 965,859	\$ 74,354	\$ 339,715	\$ 994,742
General revenues:						
Property taxes					142,826	142,826
Sales taxes					251,482	251,482
Franchise taxes					87,298	87,298
Fees-in-lieu of taxes					31,031	31,031
Miscellaneous					25,199	25,199
Gain on sale of assets					30,000	30,000
Total general revenues and transfers					567,836	567,836
Change in net assets					907,551	1,562,578
Net assets - beginning					696,388	4,920,895
Net assets - ending					\$ 1,603,939	\$ 6,483,473

The accompanying notes are an integral part of these statements.

KAMAS CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 162,522	\$ -	\$ 162,522
Restricted cash	43,631	120,000	163,631
Accounts receivable	7,327	-	7,327
Due from other governmental units	224,710	-	224,710
Prepaid expenses	7,279	-	7,279
Total assets	<u>\$ 445,469</u>	<u>\$ 120,000</u>	<u>\$ 565,469</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 41,483	\$ -	\$ 41,483
Customer deposits	5,000	-	5,000
Deferred revenues	147,050	-	147,050
Total liabilities	<u>193,533</u>	<u>-</u>	<u>193,533</u>
Fund balances:			
Reserved for:			
Parks impact fees	5,011	-	5,011
Road impact fees	21,500	-	21,500
Capital projects	-	120,000	120,000
Debt service	17,120	-	17,120
Unreserved, reported in:			
General fund	208,305	-	208,305
Total fund balances	<u>251,936</u>	<u>120,000</u>	<u>371,936</u>
Total liabilities and fund balances	<u>\$ 445,469</u>	<u>\$ 120,000</u>	<u>\$ 565,469</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds: \$ 371,936

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
in the funds.

Land	\$ 105,519	
Infrastructure	678,870	
Buildings	324,005	
Improvements	178,854	
Machinery and equipment	368,384	
Accumulated depreciation	<u>(386,784)</u>	
		1,268,848

Earned and unavailable revenue is shown as a liability until
available in the funds. 117,050

Long-term liabilities, including bonds and capital lease payables
are not due and payable in the current period and therefore
are not reported in the governmental funds, but they are
reported in the Statement of Net Assets

Compensated absences	(21,375)	
Bonds payable	(117,000)	
Capital leases payable	<u>(15,520)</u>	
		<u>(153,895)</u>

Net assets of governmental activities \$ 1,603,939

The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 475,556	\$ -	\$ 475,556
Fees-in-lieu of taxes	31,031	-	31,031
Licenses and permits	66,372	-	66,372
Intergovernmental	74,354	-	74,354
Charges for services	84,524	-	84,524
Fines and forfeitures	2,407	-	2,407
Fiesta Days	97,619	-	97,619
Cell tower	170,867	-	170,867
Miscellaneous revenue	55,198	-	55,198
Total revenues	<u>1,057,928</u>	<u>-</u>	<u>1,057,928</u>
EXPENDITURES			
Current:			
General government	270,420	-	270,420
Public safety	176,002	-	176,002
Highways and public improvements	212,004	-	212,004
Public works	23,078	-	23,078
Parks and recreation	90,383	-	90,383
Fiesta Days	65,285	-	65,285
Debt service			
Principal	21,094	-	21,094
Interest	5,360	-	5,360
Total expenditures	<u>863,626</u>	<u>-</u>	<u>863,626</u>
Excess (deficiency) of revenues over expenditures	<u>194,302</u>	<u>-</u>	<u>194,302</u>
Other financing sources (uses)			
Transfers in	-	30,000	30,000
Transfers out	(30,000)	-	(30,000)
Total other financing sources and uses	<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
Net change in fund balances	164,302	30,000	194,302
Fund balances - beginning of year	<u>87,634</u>	<u>90,000</u>	<u>177,634</u>
Fund balances - end of year	<u>\$ 251,936</u>	<u>\$ 120,000</u>	<u>\$ 371,936</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the Statement of
Activities are different because:

Net changes in fund balances - total governmental funds	\$ 194,302
---	------------

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlays exceeded depreciation in the current
period.

Machinery and equipment	55,347	
Depreciation expense	<u>(49,140)</u>	
		6,207

Donations of capital assets increase Net Assets in the
Statement of Activities, but do not appear in the
governmental funds because they are not financial resources.

Infrastructure	678,870	
Depreciation expense	<u>(8,137)</u>	
		670,733

Revenues in the Statement of Activities that do not provide
current financial resources are not reported as revenues in
funds.

Property taxes assessed in January are considered earned
revenue for the government-wide financial statements, while
governmental funds do not consider it as revenue until
available to provide current resources.

2006 property tax assessment	117,050	
2005 property tax assessment	<u>(111,000)</u>	
		6,050

Repayment of long-term debt consumes the current financial
resources of governmental funds but has no
effect on net assets

30,259

Change in net assets of governmental activities

<u>\$ 907,551</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Water	Sewer	Total
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 385,927	\$ 392,458	\$ 778,385
Accounts receivable	30,620	15,197	45,817
Total current assets	416,547	407,655	824,202
Noncurrent assets:			
Restricted cash and cash equivalents	247,553	262,145	509,698
Fixed assets	3,998,601	2,779,635	6,778,236
Less: Accumulated depreciation	(1,068,802)	(881,672)	(1,950,474)
Total noncurrent assets	3,177,352	2,160,108	5,337,460
Total assets	3,593,899	2,567,763	6,161,662
<u>LIABILITIES</u>			
Current liabilities:			
Revenue bonds payable	54,000	28,000	82,000
Capital leases payable	2,064	2,064	4,128
Deposits	20,000	-	20,000
Total current liabilities	76,064	30,064	106,128
Noncurrent liabilities:			
Bonds payable	1,094,000	82,000	1,176,000
Total noncurrent liabilities	1,094,000	82,000	1,176,000
Total liabilities	1,170,064	112,064	1,282,128
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,779,735	1,785,899	3,565,634
Restricted - Water purchases	25,643	-	25,643
Restricted - Bond reserves	82,166	61,667	143,833
Restricted - Impact fees	139,744	200,478	340,222
Unrestricted	396,547	407,655	804,202
Total net assets	\$ 2,423,835	\$2,455,699	\$ 4,879,534

The accompanying notes are an integral part of these statements.

KAMAS CITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 260,311	\$ 157,549	\$ 417,860
Impact fees	50,600	39,600	90,200
Connection fees	8,000	8,500	16,500
Miscellaneous	2,542	-	2,542
Total operating revenues	321,453	205,649	527,102
Operating expenses:			
Cost of service	82,599	82,524	165,123
Administrative	6,913	6,612	13,525
Maintenance	29,351	21,550	50,901
Depreciation	87,921	58,153	146,074
Total operating expenses	206,784	168,839	375,623
Operating income	114,669	36,810	151,479
Nonoperating revenues (expenses):			
Interest revenue	9,028	7,941	16,969
Interest expense	(523)	(1,901)	(2,424)
Total nonoperating revenues (expenses)	8,505	6,040	14,545
Income before contributions and transfers	123,174	42,850	166,024
Capital contributions	301,068	187,935	489,003
Change in net assets	424,242	230,785	655,027
Total net assets - beginning	1,999,593	2,224,914	4,224,507
Total net assets - ending	\$ 2,423,835	\$ 2,455,699	\$ 4,879,534

The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water	Sewer	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 257,043	\$ 157,426	\$ 414,469
Payments to suppliers and employees	(114,864)	(106,686)	(221,550)
Payments for interfund services used	(4,000)	(4,000)	(8,000)
Receipts for impact fees	50,600	39,600	90,200
Receipts for connection fees	8,000	8,500	16,500
Net cash provided (used) by operating activities	196,779	94,840	291,619
Cash Flows From Noncapital Financing Activities			
Transfers from other funds	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-
Cash Flows From Capital and Related Financing Activities			
Principal paid on capital debt	(53,819)	(30,819)	(84,638)
Interest paid on capital debt	(523)	(1,901)	(2,424)
Purchases of capital assets	(52,752)	(2,000)	(54,752)
Net cash provided (used) by capital and related financing activities	(107,094)	(34,720)	(141,814)
Cash Flows From Investing Activities			
Interest and dividends received	9,028	7,941	16,969
Net cash provided (used) by investing activities	9,028	7,941	16,969
Net increase (decrease) in cash and cash equivalents	98,713	68,061	166,774
Cash and cash equivalents, July 1	534,767	586,542	1,121,309
Cash and cash equivalents, June 30	\$ 633,480	\$ 654,603	\$ 1,288,083

The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 114,669	\$ 36,810	\$ 151,479
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	87,921	58,153	146,074
(Increase) decrease in accounts receivable	<u>(5,811)</u>	<u>(123)</u>	<u>(5,934)</u>
Total adjustments	<u>82,110</u>	<u>58,030</u>	<u>140,140</u>
Net cash provided (used) by operating activities	<u>\$ 196,779</u>	<u>\$ 94,840</u>	<u>\$ 291,619</u>
 Non cash capital activities:			
Contribution of capital assets	<u>\$ 301,068</u>	<u>\$ 187,935</u>	<u>\$ 489,003</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kamas City, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The City has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

Kamas City was incorporated in the State of Utah. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: Public safety (police and fire), public utilities (sewer and water), highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the following:

1. The primary government
2. Organizations for which the primary government is financially accountable
3. Other organizations that, because of the nature and significance of their relationship with the primary government, exclusion from the reporting entity would render the financial statements misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations. They are reported as part of the primary government and blended with the appropriate funds. The City has the following blended component unit.

Kamas City Municipal Building Authority. The Kamas City Municipal Building Authority's governing board is appointed by the government's governing body. The City created a building authority in the form of a non-profit corporation under the Utah Municipal Building Authority Act for the purpose of acquiring, improving, or extending one or more projects, as defined in the Act, and to finance their costs on behalf of the City in accordance with the procedures and subject to limitations of the Act. There was no activity in the current year.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

Government-wide Financial Statements

The government-wide statements present information on all non-fiduciary activities of the primary government. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Statements are provided for *governmental funds* and for *proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

General Fund - This fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the construction of major capital projects.

The City reports the following major proprietary funds:

Sewer Fund - The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Water Fund - The water fund is used to account for operations of the water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities, and Fund Balances/Net Assets

The following are the City's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)

Pooled Cash and Temporary Investments

Unrestricted and restricted cash balances of both funds are combined to form a pool of cash which is managed by the City Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The City Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories

No significant inventories are maintained by the City, therefore none are reflected in these statements.

Restricted Assets

Certain resources set aside as reserves in accordance with council resolutions and State statutes are classified as restricted assets on the balance sheet because their use is limited.

Capital Assets

General capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. Capital assets are reported in the governmental column in the government-wide financial statements. All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years	Equipment	5-10 years
Improvements	10-50 years	Infrastructure	25-50 years

Long-term Obligations

In the government-wide statements, long-term debt obligations are reported as liabilities.

The face amount of debt issued is reported as other financing sources in the governmental fund financial statements.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)

Net Assets/Fund Balances

The difference between assets and liabilities is *net assets* on the government-wide statements, and *fund balance* on the governmental fund statements.

In the governmental fund statements, fund balances are classified as reserved or unreserved. Reserves represent those portions of fund balance that are not available for expenditures or are legally segregated for a specific future use. Unreserved fund balances are available for future appropriation, though some portions may be designated to represent management's tentative plans for specific future uses.

E. Revenues and Expenditures

The following are the City's significant policies related to recognition and reporting of certain revenues, expenditures, and interfund activity.

Revenue Availability

Under the modified accrual basis of accounting, revenues are considered to be "available" when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days after the end of the current year. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 60 days after year-end.

Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2006.

Expenditure Recognition

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures, and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City generally uses restricted resources first, then unrestricted resources.

F. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for both the general fund and capital projects fund. All annual appropriations lapse at the fiscal year end. Encumbrance accounting is not used by the City.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

Summary of City Budget Procedures and Calendar

1. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance.
2. Budgets are required by the State of Utah for both the General and Capital Project Funds.
3. Each year the City publishes a separate budget document prepared according to this legal level of control.
4. The City's budget is a Financial Plan of all estimated revenues and all appropriations for expenditures. Revenues and Expenditures must balance for the funds required by the State Code as indicated in item 2 above.
5. A tentative budget is presented by the Mayor to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 22.
6. The tentative budget is a public record and is available for inspection at the City offices for at least ten days prior to adoption of the final budget.
7. Notice of public hearing on adoption of the final budget is published seven days prior to the public hearing.
8. The public hearing on the tentatively adopted budget is held no later than June 22. Final adjustments are made to the tentative budget by the Council after the public hearing.
9. Occasionally the City Council will exercise their option to open the budget to indicate additional financing sources that become available.
10. The final budget is adopted by ordinance before June 22 and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.
11. In connection with budget adoption:
 - a. An annual tax ordinance establishing the property tax rate is adopted before June 22.
 - b. The City Treasurer is to certify the property tax rate to the County Auditor before June 22.
12. Budgets for the General and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Summary of Action Required for Budget Changes:

The Council may, by resolution, transfer unexpended appropriations from one department to another department within the same fund. The budget appropriation for any department may be reduced by resolution.

Fund budgets may be increased by resolution after a public hearing.

Current Year Excess of Expenditures Over Appropriations:

For the year ended June 30, 2006, expenditures exceeded appropriations in the Public Safety Department by \$1,302.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Contributions

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

H. Compensated Absences

City policy provides for vested or accumulated vacation and sick leave. The balance at June 30, 2006, was \$21,375.

I. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Restricted Resources

The City's policy is to use restricted resources first to fund appropriations when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits are carried at cost.

At June 30, 2006, the carrying amount of the City's deposits was \$735,962 and the bank balance was \$774,689. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$674,689 balance was uninsured and uncollateralized.

B. Investments

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 888,776	\$ 888,491

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

C. Summary

	Carrying Amount
Deposits	\$ 735,962
Investment in State Treasurer's Investment Fund	888,776
Total deposits and investments	<u>\$ 1,624,738</u>
Equity in pooled cash and investments	\$ 951,409
Restricted cash - water fund	247,553
Restricted cash - sewer fund	262,145
Restricted cash - general fund	163,631
Total deposits and investments	<u>\$ 1,624,738</u>

Deposit and Investment Risk Disclosure. Deposits and investments for Kamas City are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the City's exposure to various risks related to its cash management activities.

Custodial credit risk - deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of City funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The City's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The City's deposits at June 30, 2006 were \$774,689, of which \$100,000 was insured under federal depository insurance.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's policy for limiting credit risk for investments is to comply with the Money Management Act. The City is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains and losses, net of administrative fees, of the PTIF are allocated based upon the participant's average daily balance. The PTIF pool has not been rated.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit risk. Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

Interest rate risk. Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of credit risk. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	(Deletions)	Balance June 30, 2006
<u>PRIMARY GOVERNMENT</u>				
GOVERNMENTAL ACTIVITIES				
Nondepreciated Assets				
Land	\$ 105,519	\$ -	\$ -	\$ 105,519
Total nondepreciated assets	105,519	-	-	105,519
Depreciated Assets				
Infrastructure	-	678,870	-	678,870
Improvements-nonbuilding	178,854	-	-	178,854
Machinery and equipment	334,854	55,347	(21,817)	368,384
Buildings	324,005	-	-	324,005
Total depreciated assets	837,713	734,217	(21,817)	1,550,113
Less accumulated depreciation				
Infrastructure	-	(8,137)	-	(8,137)
Buildings	(105,671)	(8,086)	-	(113,757)
Machinery and equipment	(191,134)	(31,714)	21,817	(201,031)
Improvements	(54,519)	(9,341)	-	(63,860)
Total	(351,324)	(57,278)	21,817	(386,785)
Net assets depreciated	486,389	676,939	-	1,163,328
Governmental activities capital assets, net	<u>\$ 591,908</u>	<u>\$ 676,939</u>	<u>\$ -</u>	<u>\$ 1,268,847</u>

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 3 - CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2005	Additions	(Deletions)	Balance June 30, 2006
BUSINESS-TYPE ACTIVITIES				
Nondepreciated Assets				
Land	\$ 70,196	\$ -	\$ -	\$ 70,196
Water stock	281,343	159,000	-	440,343
Total nondepreciated assets	351,539	159,000	-	510,539
Depreciated Assets				
Improvements-nonbuilding				
Water system	3,202,678	147,068	-	3,349,746
Sewer system	2,476,047	187,935	-	2,663,982
Equipment				
Water system	122,450	47,752	-	170,202
Sewer system	81,767	2,000	-	83,767
Total depreciated assets	5,882,942	384,755	-	6,267,697
Less accumulated depreciation				
Improvements-nonbuilding				
Water system	(901,787)	(75,615)	-	(977,402)
Sewer system	(779,238)	(50,761)	-	(829,999)
Equipment				
Water system	(79,095)	(12,305)	-	(91,400)
Sewer system	(44,281)	(7,392)	-	(51,673)
Total	(1,804,401)	(146,073)	-	(1,950,474)
Net assets depreciated	4,078,541	238,682	-	4,317,223
Business-type activities capital assets, net	\$ 4,430,080	\$ 397,682	\$ -	\$ 4,827,762

DEPRECIATION EXPENSE

	Governmental Types	Business Types	Totals
Infrastructure	\$ 8,137	\$ -	\$ 8,137
General government	8,086	-	8,086
Highways and public improvements	18,727	-	18,727
Parks	14,197	-	14,197
Public safety	8,131	-	8,131
Sewer	-	58,153	58,153
Water	-	87,921	87,921
TOTAL	\$ 57,278	\$ 146,074	\$ 203,352

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 4 - REVENUE BOND RESERVES

Sewer Revenue Bonds

The required bond reserve account balances at June 30, 2006, were as follows:

1969 Sewer revenue bond	
Bond reserve fund	\$ 9,000
Emergency repair fund	5,000
	<u>\$ 14,000</u>

In addition, both revenue bond ordinances require sufficient revenue be set aside to pay principal and interest on these bonds as they become due.

1989 Sewer revenue bond	
Bond redemption account	\$ 14,667
Bond reserve fund	22,000
Repair and replacement	11,000
	<u>\$ 47,667</u>

This bond ordinance requires monthly amounts to be set aside as follows:

Sewer Revenue Bond Redemption Account

Beginning in November 1989 and continuing each month, the City is required to reserve one-twelfth (1/12) of the annual principal payment due on the sewer revenue bond. The reserve is then used to make the annual payment.

Sewer Revenue Bond Reserve Account

Beginning in November 1989 and continuing each month, the City is required to reserve \$306 per month until such time as the aggregate reserve shall equal \$22,000. The reserve shall be used to fund the sewer revenue bond redemption fund in the event it is in a deficit position.

Emergency Repair and Replacement Account

Beginning in November 1989 and continuing each month, the City is required to reserve \$153 per month until such time as the aggregate reserve equals \$11,000. The reserve shall be used to make such emergency repairs of, or replacements to the system to insure its continued operation.

Water Revenue Bonds

The required bond reserve account balances at June 30, 2006 were as follows:

1994 Water Revenue Bond	
Bond redemption account	\$ 26,000
Bond reserve fund	56,166
	<u>\$ 82,166</u>

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 4 - REVENUE BOND RESERVES (CONTINUED)

This bond ordinance requires monthly amounts to be set aside as follows:

Water Revenue Bond Redemption Account

Beginning in January 1, 1995 and continuing each month, the City is required to reserve one-twelfth (1/12) of the annual principal payment due on the water revenue bond. The reserve is then used to make the annual payment.

Water Revenue Bond Reserve Account

Beginning in January 1, 1995 and continuing each month, the City is required to reserve \$407 per month until such time as the aggregate reserve shall equal \$88,000. The reserve shall be used to fund the water revenue bond redemption fund in the event it is in a deficit position.

NOTE 5 - RESERVATIONS/RESTRICTIONS OF FUND BALANCE/RETAINED EARNINGS

Reserved for Park Impact Fees - This represents park impact fees collected and restricted for park improvements.

Reserved for Road Impact Fees - This represents road impact fees collected and restricted for road improvements.

Reserved for Capital Projects - The City is setting aside funds in a reserve for major capital improvements.

Reserved for Debt Service - This represents required reserve accounts set up under bond ordinances.

Restricted for Water Purchases - This represents funds set aside for water share purchases.

Restricted for Bond Reserves - This represents required reserve accounts set up under bond ordinances.

Restricted for Impact Fees - This represents sewer and water impact fees restricted for sewer and water improvements.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2006, was as follows:

Description	Interest Rate	Outstanding 6/30/2005	Additions	Payments	Outstanding 6/30/2006	Current Portion
BUSINESS TYPE						
Sewer utility fund:						
Lease-purchase agreements	5.61-13.47%	\$ 3,883	\$ -	\$ 1,819	\$ 2,064	\$ 2,064
1969 \$130,000 sewer revenue bond	4.74%	29,000	-	7,000	22,000	6,000
1989 \$428,000 sewer revenue bond	N/A	110,000	-	22,000	88,000	22,000
Total sewer utility		<u>\$ 142,883</u>	<u>\$ -</u>	<u>\$ 30,819</u>	<u>\$ 112,064</u>	<u>\$ 30,064</u>
Water utility fund:						
Lease-purchase agreements	5.61-13.47%	\$ 3,883	\$ -	\$ 1,819	\$ 2,064	\$ 2,064
1994 \$1,544,000 water revenue bond	N/A	1,200,000	-	52,000	1,148,000	54,000
Total water utility		<u>\$ 1,203,883</u>	<u>\$ -</u>	<u>\$ 53,819</u>	<u>\$ 1,150,064</u>	<u>\$ 56,064</u>
GOVERNMENTAL ACTIVITIES						
Compensated absences		\$ 30,540	\$ -	\$ 9,165	\$ 21,375	\$ -
Lease revenue bond	3.00%	130,000	-	13,000	117,000	13,000
Lease-purchase agreements	5.61-13.47%	23,614	-	8,094	15,520	8,636
		<u>\$ 184,154</u>	<u>\$ -</u>	<u>\$ 30,259</u>	<u>\$ 153,895</u>	<u>\$ 21,636</u>

Annual requirements to amortize long-term debt as of June 30, 2006 - Revenue Bonds:

Sewer utility fund:

June 30,	1969 Sewer Revenue Bond		1989 Sewer Revenue Bond
	Principal	Interest	Principal*
2007	\$ 6,000	\$ 1,045	\$ 22,000
2008	7,000	760	22,000
2009	9,000	427	22,000
Thereafter	-	-	22,000
	<u>\$ 22,000</u>	<u>\$ 2,232</u>	<u>\$ 88,000</u>

* Interest is not applicable for the 1989 sewer revenue bond.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Water utility fund:

June 30,	1994 Water Revenue Bond Principal*
2007	\$ 54,000
2008	56,000
2009	58,000
2010	59,000
2011	61,000
2012	63,000
2013	65,000
2014	67,000
2015	79,000
2016	80,000
2017	82,000
2018	84,000
2019	86,000
2020	88,000
2021	166,000
	<u>\$ 1,148,000</u>

* Interest is not applicable for the 1994 water revenue bond.

Lease Revenue Bond Payable - Community Impact Fund Board

On February 4, 1993, the Permanent Community Impact Fund Board authorized a \$250,000 loan to the Kamas City Municipal Building Authority for the construction of a city administration building. The loan is evidenced by a lease-revenue bond. The bond shall mature in twenty principal installments payable on January 1st of each year commencing on January 1, 1995. In addition, the bond requires annual payments of interest on the unpaid principal balance at the rate of three percent (3%) per annum. The bond also requires the issuer to establish and maintain a debt service reserve fund in an amount equal to the maximum annual debt service on the bond. The amount required must be contributed to that fund in no more than seventy-two monthly deposits. The balance of the lease-revenue bond outstanding at June 30, 2006, was \$117,000.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Annual requirements to amortize the bond payable as of June 30, 2006, are as follows:

June 30,	Lease Revenue Bond	
	Principal	Interest
2007	\$ 13,000	\$ 3,510
2008	14,000	3,120
2009	14,000	2,700
2010	14,000	2,280
2011	15,000	1,860
2012	15,000	1,410
2013	16,000	960
2014	16,000	480
	<u>\$ 117,000</u>	<u>\$ 16,320</u>

The required debt service reserve balance at June 30, 2006, was as follows:

Bond reserve fund	<u>\$ 17,120</u>
-------------------	------------------

Business-type Activities

The City entered into a lease-purchase agreement for the purchase of a City truck for a total cost, including principal and interest, of \$28,111. The terms of the agreement provide for three (3) annual payments of \$7,028, including interest, at 13.47%, beginning on July 24, 2003. The truck is shared by all City departments and the liability is divided in the General Fund and both the Water and Sewer Funds. The balance of this contract to be paid by the Enterprise Funds at June 30, 2006, was \$4,128.

Annual requirements to amortize the lease-purchase agreement as of June 30, 2006, are as follows:

Water Fund:	Year Ended			
	June 30,	Principal	Interest	Total
	2007	<u>\$ 2,064</u>	<u>278</u>	<u>2,342</u>

Sewer Fund:	Year Ended			
	June 30,	Principal	Interest	Total
	2007	<u>\$ 2,064</u>	<u>\$ 278</u>	<u>\$ 2,342</u>

Governmental-type Activities

The City entered into a lease-purchase agreement for the purchase of a City truck for a total cost, including principal and interest, of \$28,845. The terms of the agreement provide for four (4) annual payments of \$7,211, including interest, at 4.75%, beginning on July 14, 2004. The truck is used by the Police Department and the liability has been recorded in the General Fund. The balance of this contract to be provided for in the General Fund at June 30, 2006 was \$13,456.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Annual requirements to amortize the lease-purchase agreement as of June 30, 2006, are as follows:

Year Ended June 30,	Principal	Interest	Total
2007	\$ 6,572	\$ 639	\$ 7,211
2008	6,884	327	7,211
	<u>\$ 13,456</u>	<u>\$ 966</u>	<u>\$ 14,422</u>

The City entered into a lease-purchase agreement for the purchase of a City truck for a total cost, including principal and interest, of \$28,111. The terms of the agreement provide for three (3) annual payments of \$7,028, including interest, at 13.47%, beginning on July 24, 2003. The truck is shared by all City departments and the liability is divided in the General Fund and both the Water and Sewer Funds. The balance of this contract to be provided for in the General Fund at June 30, 2006, was \$2,064.

Annual requirements to amortize the lease-purchase agreement as of June 30, 2006, are as follows

Year Ended June 30,	Principal	Interest	Total
2007	\$ 2,064	\$ 278	\$ 2,342

NOTE 7 - LOCAL GOVERNMENT - COST SHARING

Plan Description. Kamas City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System for employers with Social Security coverage, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated, 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, the Kamas City is required to contribute 11.09% of their annual covered salary. In the Public Safety Noncontributory Retirement System for employers with Social Security coverage the, Kamas City is required to contribute 19.34% of their annual salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 7 - LOCAL GOVERNMENT - COST SHARING (CONTINUED)

Kamas City contributes to the Local Governmental Noncontributory Retirement System. The contributions for June 30, 2006, 2005, and 2004, were \$17,827, \$18,105, and \$14,714, respectively and for the Public Safety Retirement System the contributions for June 30, 2006, 2005, and 2004, were \$8,157, \$8,298, and \$6,317, respectively. The contributions were equal to the required contributions for each year.

Kamas City also participates in a defined contribution 401K plan for employees. The contributions were as follows:

	<u>Employee</u>	<u>Employer</u>
2006	\$ 6,070	\$ -
2005	\$ 4,810	\$ -
2004	\$ 3,300	\$ -

NOTE 8 - POST-EMPLOYMENT BENEFITS

The only post-employment benefit offered by the City is health insurance for eighteen (18) months following termination. Employees covered and eligible are all employees who were covered by the insurance during employment. The participant is required to pay 100% of the premiums. The City is not required to contribute and therefore incurs no expense.

NOTE 9 - RISK MANAGEMENT

Kamas City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of June 30, 2006, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

NOTE 10 - DEFERRED REVENUE

Deferred revenues are resource inflows that do not yet meet the criteria for revenue recognition. The City follows GASB Statement No.33 which reports property taxes currently receivable to be used in the following fiscal year as deferred revenue.

NOTE 11 - INTEREST EXPENSE

The Proprietary Funds incurred \$2,424 in interest expense of which \$2,424 was charged to expense and \$0 was capitalized.

The General Fund incurred \$5,360 in interest expense of which \$5,360 was charged to expense and \$0 was capitalized.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2006

NOTE 12 - INTER-FUND TRANSFERS

During the year ended June 30, 2006, budgeted interfund operating transfers were as follows:

Transfer from General Fund	\$ (30,000)
Transfer to Capital Projects	<u>30,000</u>
	<u><u>\$ -</u></u>

NOTE 13 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing entity notifies the county of date, time, and place of public hearing	Mar. 1
Budget officer of the entity prepares and files with the City Council a tentative budget for the next fiscal year	1st scheduled council meeting in May
County auditor sends valuation certified tax rate and levy worksheets to each taxing entity	Jun. 8
Taxing entity must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before Jun. 22
Taxing entity adopts a final tax rate if there is no increase in certified tax rate	Jun. 22
Taxing entity adopts final budget if there is no increase in certified tax rate	Jun. 22
Copy of the budget is submitted to state auditor within 30 days of adoption	
Payment and delinquency date	Nov. 30

KAMAS CITY
REQUIRED SUPPLEMENTAL
INFORMATION
JUNE 30, 2006

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES TO FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 118,000	\$ 115,000	\$ 117,371	\$ 2,371
Redemptions	10,000	22,000	19,405	(2,595)
Sales tax	205,000	240,000	251,482	11,482
Franchise tax	70,000	90,000	87,298	(2,702)
Total taxes	403,000	467,000	475,556	8,556
Fees-in-lieu taxes	33,500	33,500	31,031	(2,469)
Licenses and permits:				
Business licenses & permits	4,100	12,000	11,970	(30)
Building permits	30,000	55,000	54,402	(598)
Total licenses and permits	34,100	67,000	66,372	(628)
Intergovernmental:				
Class "C" roads	60,000	56,532	58,305	1,773
State liquor allotment	2,300	2,949	2,949	-
Grants	-	13,100	13,100	-
Total intergovernmental	62,300	72,581	74,354	1,773
Charges for services:				
Public property rent	13,500	14,250	14,170	(80)
Road impact fees	10,000	12,500	12,000	(500)
Park impact fees	10,000	10,000	9,000	(1,000)
Road cut fees - plan review fees	5,000	6,275	3,875	(2,400)
Engineering fees	-	15,200	13,412	(1,788)
Roads - miscellaneous	-	25,000	25,000	-
Miscellaneous	5,100	12,800	7,067	(5,733)
Total charges for services	43,600	96,025	84,524	(11,501)
Fines and forfeitures:				
Fines and forfeitures	50	2,800	2,407	(393)

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
<u>Revenues (Continued)</u>				
Other revenues:				
Cell tower	\$ 175,000	\$ 170,867	\$ 170,867	\$ -
Interest earnings	10,600	25,000	25,198	198
Shop facilities sale	30,000	30,000	30,000	-
Fiesta Days	96,350	97,021	97,619	598
Total other revenues	311,950	322,888	323,684	796
Total revenues	888,500	1,061,794	1,057,928	(3,866)
<u>Expenditures</u>				
Current:				
General government:				
Administrative & Legislative:				
Salaries and benefits	124,200	142,675	140,382	2,293
Materials, supplies and services	42,250	32,528	30,476	2,052
	166,450	175,203	170,858	4,345
Nondepartmental				
Insurance and bonds	19,300	22,000	21,436	564
Professional services	19,000	52,100	50,245	1,855
Elections	1,100	1,162	1,162	-
	39,400	75,262	72,843	2,419
General governmental buildings:				
Materials, supplies and services	26,000	27,000	26,719	281
Total general government	231,850	277,465	270,420	7,045
Public safety:				
Law enforcement				
Salaries and benefits	109,100	120,500	124,105	(3,605)
Materials and supplies	20,800	21,050	18,539	2,511
	129,900	141,550	142,644	(1,094)
Inspections				
Salaries and benefits	16,000	32,700	33,074	(374)
Materials and supplies	-	450	284	166
	16,000	33,150	33,358	(208)
Total public safety	145,900	174,700	176,002	(1,302)

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
<u>Expenditures - Continued</u>				
Highways & public improvements:				
Class "C" roads	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Salaries and wages	45,300	46,000	45,285	715
Materials, supplies and service	96,025	95,275	95,224	51
Capital outlay	-	11,495	11,495	-
Total highways & public improvements	201,325	212,770	212,004	766
Public works				
Materials and supplies	17,400	22,500	21,078	1,422
Capital outlay	-	2,000	2,000	-
Total public works	17,400	24,500	23,078	1,422
Parks and recreation:				
Salaries and benefits	45,300	46,000	45,285	715
Materials, supplies and services	13,825	14,025	10,098	3,927
Capital outlay	35,000	35,000	35,000	-
Total parks and recreation	94,125	95,025	90,383	4,642
Fiesta Days:				
Materials, supplies and services	55,450	65,891	65,285	606
Debt service:				
Principal	21,100	21,100	21,094	6
Interest	5,400	5,400	5,360	40
Total debt service:	26,500	26,500	26,454	46
Total expenditures	772,550	876,851	863,626	13,225
Excess (deficiency) of revenues over expenditures	115,950	184,943	194,302	9,359
Other financing sources (uses):				
Operating transfers (out)	(30,000)	(30,000)	(30,000)	-
Total other financing sources (uses)	(30,000)	(30,000)	(30,000)	-

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	\$ 85,950	\$ 154,943	\$ 164,302	\$ 9,359
Fund balance - beginning of year	87,634	87,634	87,634	-
Fund balance - end of year	<u>\$ 173,584</u>	<u>\$ 242,577</u>	<u>\$ 251,936</u>	<u>\$ 9,359</u>

KAMAS CITY

OTHER SUPPLEMENTAL INFORMATION

JUNE 30, 2006

KAMAS CITY
SCHEDULE OF IMPACT FEES
FOR THE YEAR ENDED JUNE 30, 2006

	Water Impact Fees	Sewer Impact Fees	Parks Impact Fees	Streets Impact Fees
Year Impact Fees Received:				
June 30, 2001	\$ -	\$ 20,147	\$ -	\$ -
June 30, 2002	-	35,152	-	-
June 30, 2003	11,057	21,982	-	-
June 30, 2004	60,487	63,797	-	7,250
June 30, 2005	17,600	19,800	-	2,250
June 30, 2006	50,600	39,600	5,011	12,000
Reserves June 30, 2006	<u>\$ 139,744</u>	<u>\$ 200,478</u>	<u>\$ 5,011</u>	<u>\$ 21,500</u>
Capital Projects Planned:	New water line - Main Street	New sewer lines Hwy 248	Park development	New roads
Projected Schedule for Expenditure	2006-07 2007-08	2006-07 2007-08	2006-07	2006-07 2007-08

KAMAS CITY
AUDITOR'S REPORTS AND
AUDITOR'S MANAGEMENT LETTER

JUNE 30, 2006

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

To the Honorable Mayor and City Council
Kamas City
Kamas, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Kamas City, Utah, for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. As part of our audit, we have audited Kamas City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major assistance programs from the State of Utah:

"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City received the following nonmajor grant during the year ended June 30, 2006.

Utah Quality Growth Commission (Department of Planning and Budgeting)

Our audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Public Debt	Truth in Taxation and Property Tax Limitations
Cash Management	Liquor Law Enforcement
Purchasing Requirements	Uniform Building Code Standards
Budgetary Compliance	Impact Fees
"B" & "C" Road Funds	
Other Compliance Issues	

The management of Kamas City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE
PAGE 2

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming an opinion on compliance, which is expressed in the following paragraph.

In our opinion, Kamas City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Davis, Chase & Associates

October 27, 2006

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council
Kamas City
Kamas, Utah

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Kamas City, Utah, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kamas City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Kamas City, Utah, in a separate letter dated October 27, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kamas City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to the management of Kamas City, Utah, in a separate letter dated October 27, 2006.

This report is intended for the information of the audit committee, legislative body, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Chase & Associates

October 27, 2006

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

To the Honorable Mayor and City Council
Kamas City
Kamas, Utah

We have recently completed our audit examination for the year ended June 30, 2006. The size of your operation prevents a complete separation of duties. Therefore, we recommend management and the City Council take an active part in reviewing transactions and in authorizing any adjustments to the accounting records. During the course of our audit, we observed a few items we feel require your consideration. They are as follows:

1. **FUND BALANCE**

The unreserved fund balance in the general fund is in excess of the limitations set by state law. Section 10-6-116(2) of the Utah Code Annotated, 1953, as amended sets forth the amount of the fund balance that may be accumulated in the General Fund as follows: The accumulation of a fund balance in the General Fund shall not exceed 18% of the total estimated revenue of the General Fund.

We recommend the excess over the maximum allowed be recognized in the budget of the current year or in the budget for the succeeding year.

Management Response

The City is aware of the excess and will either incorporate the excess in the budget when the budget is reopened and amended or in the following year.

2. **EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT**

The City should not incur expenditures in excess of the total appropriation for any department as adopted in the final budget. For the year ended June 30, 2006, the expenditures for the Public Safety Department exceeded the budget.

We recommend the City review their budget vs. actual expenditures on a regular basis. The City's actual expenditures should not exceed budget appropriations for any department. Budget amendments can be adopted if proper budgetary procedures are followed.

Management Response

The City is aware of these excess expenditures and will monitor the expenditures as compared to the budget and/or budget amendments on a regular basis.

3. BUDGETED PROPERTY TAX

The amount on the Budgeted Revenue column of the Form TC-693 tax rates summary required by the Tax Commission was not the same as the revenue amount in the City's adopted budget.

We recommend that the budgeted property tax amount be amended to be the same amount as on the Form TC-693.

Management Response

The City will amend the budget to correspond with the budgeted revenue amount shown on the Form TC-693 after the certified tax rate is adopted.

4. SALES TAX

State law requires sales tax be collected on all sales of tangible personal property and certain services to final consumers. This sales tax is then remitted to the Utah State Tax Commission. Taxable sales include admission or user fees for sporting events, concerts, skating rinks, sports activities, entertainment, recreation, or other athletic activities. Also, sales of food and beverages at concession stands would be subject to sales tax unless they are provided by outside vendors who have their own sales tax reporting requirements.

We recommend the City compute and remit the sales tax required on Fiesta Day events and concessions.

Management Response

The City will compute and remit the required sales tax on Fiesta Days events and concessions.

We appreciate the cooperation and assistance we have received from City personnel during the audit.

Davis, Chase & Associates

October 27, 2006

KAMAS CITY
STATUS OF FISCAL YEAR 2005 FINDINGS
AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

1. FUND BALANCE

The unreserved fund balance in the general fund is below the minimum limitation set by state law. Section 10-6-116(4) of the Utah Code Annotated, 1953, as amended indicates that only the fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes. The remaining 5% must be maintained as a minimum fund balance.

We recommend the unreserved balance in the general fund be increased in the coming year to exceed the 5%.

Management Response

The City is aware of the minimum fund balance requirement and will include it in their budgeting process.

Status: Implemented.

2. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

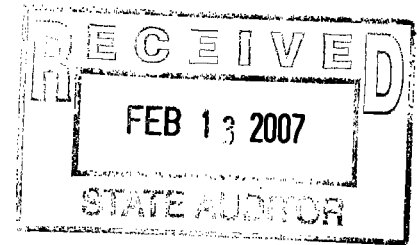
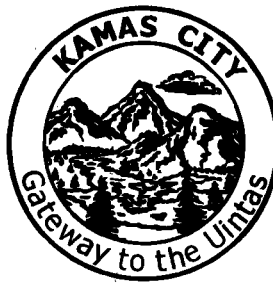
The City should not incur expenditures in excess of the total appropriation for any department as adopted in the final budget. For the year ended June 30, 2005, the expenditures for several departments exceeded the budget.

We recommend the City review their budget vs. actual expenditures on a regular basis. The City's actual expenditures should not exceed budget appropriations for any department. Budget amendments can be adopted if proper budgetary procedures are followed.

Management Response

The City is aware of these excess expenditures and will monitor the expenditures as compared to the budget and/or budget amendments on a regular basis.

Status: Partially implemented.



170 North Main
Kamas, UT 84036
(435) 783-4630 Fax (435) 783-6209

February 7, 2007

MacRay A. Curtis, CPA
Director, Local Government Division
Office of the State Auditor
East Office Building, Suite E310
PO Box 142310
Salt Lake City, Utah 84114

Dear Director Curtis,

I appreciated receiving your letter dated January 22, 2007 concerning Kamas City being in noncompliance regarding fund balance limitations. Last year our fund balance was too low and I guess that we over compensated this year. We are currently in the process of reviewing both; 1- possible amendments to this current year's budget and, 2-getting prepared to approve the budget for 2006-2007. In this process I expect to be able to report that Kamas will be in compliance with State law concerning finance related provisions by June 21, 2007.

If you have questions about our corrective action process, please contact me personally or our City Recorder, Kim Peacock, at the City office. You may also contact our Auditor, Steve Davis, at his office.

I appreciate your understanding through this process.

Sincerely,

Lewis P. Marchant, Mayor
Kamas City